(b) Industrial Finance Corporation of India (IFCI) has reported that as on 31st January 1995, it had appointed 366 nominee directors on the Boards of 866 companies. Industrial Development Bank of India (IDBI) has reported that it has appointed 425 nominee directors on the Boards of 947 companies. Similar information in respect of other financial institutions (FIs) is being collected and will be laid on the Table of the House. However, the time and labour involved in preparation of a list showing the names of companies having nominee directors of FIs may not be commensurate with the results to be achieved.

(c) and (d) FIs have evolved guidelines in respect of nominee directors. These guidelines, inter-alia, deal with appointment/withdrawal of nominee directors, role of nominee directors and reporting by nominee directors. The nominee directors are expected to act in the best interest of the company and also safeguard the interest of the FI concerned.

Guidelines for financial institutions

1116. SHRI GURUDAS DAS GUPTA:
SHRI JALALUDIN ANSARI:

Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the financial institutions have become more alert after the recent financial scam in safeguarding public interest: if so, the steps being taken in this direction;

(b) whether it is also a fact that no guidelines have been issued from the Banking Department to various financial institutions like Industrial Finance Corporation of India (IFCI) on the proper actions to be undertaken by nominee Directors: and

(c) what steps Government propose to rectify this lapse?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M. V. CHANDRASHEKARA MURTHY): (a) Yes Sir. Reserve Bank of India (RBI) have issued guidelines to financial institutions (FIs) with regard to investment portfolio-transanctions in securities. RBI have also issued guidelines to FIs on prudential norms for income recognition, asset classification and provisioning.

(b) and (c) FIs have evolved guidelines in respect of nominee directors appointed by them on the Boards of assisted companies. These guidelines also take into account instruction issued on the subject by Government from time to time. Industrial Development Bank of India (IDBI) has reported that experience of the FIs with regard to nominee directors has generally been satisfactory.

Proceedings against nominee director of Financial Institutions

1117. SHRI GURUDAS DAS GUPTA:
SHRI N. GIRI PRASAD:

Will the Minister of FINANCE be pleased to state:

(a) whether Government can initiate penal proceedings against nominee Directors of financial institutions like IFCI if their actions become questionable:

(b) whether Government have taken steps to carefully watch the performance of financial institutions and their nominees who serve on private sector boards of directors;

(c) whether it is a fact that Government have no system to monitor the activities of financial institutions and their nominees; and

(d) the steps proposed to be taken for exemplary action to project public funds and public interest?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M. V. CHANDRASHEKARA MURTHY): (a) Nominee directors on the Boards of assisted companies of financial institutions (FIs) are appointed by the FIs concerned. The Industrial Development Bank of India (IDBI) has reported that the nominee director is only a part-time director and is not involved in the day-to-day affairs of the company. He is liable for prosecution along with other directors for any default such as non-compliance of provisions of various statutes by the company, if the directors have not acted in good faith. The statutes of certain FIs provide an element of protection to the institutional nominee directors in as much as they shall not incur any obligation or liability by reason only of their being a director for anything done or omitted to be done in good faith. However, a nominee director can be prosecuted for any default, non-compliance and failure, if it can be proved that the concerned director has been guilty knowingly or willfully.

(b) and (d) FIs themselves review the performance of their nominee directors and also take appropriate action wherever necessary based on the reports of nominee directors about the institution to which they are nominated. The nominee directors are expected to act in the best interest of the company and also safeguard the interest of the FI concerned. IDBI has reported that the performance of nominee directors is reviewed by the FI concerned and the experience of the FIs with regard to nominee directors has generally been satisfactory.

(c) The Government monitors the position of overall sanctions and disbursements made by FIs. The Government also appoints its nominee directors on the Boards of FIs. Besides, the matters of general policy nature and of common interest to FIs are discussed with Chief Executives of FIs in meetings held from time to time.

Representation by Banking Department

1118. SHRI GURUDAS DAS GUPTA:
SHRI CHATURANAN MISHRA:

Will the Minister of FINANCE be pleased to state:

(a) whether the Banking Department have representation on the Boards of Industrial Finance Corporation of India, Industrial Development Bank of India and Unit Trust of India;

(b) if so, the details of such representation on the above Boards of financial institutions;

(c) whether Banking Department takes precautionary steps through its representatives to prevent fraud and corruption in private sector companies who have been financed by financial institutions; and

(d) if so, the details of safeguards?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M. V. CHANDRASHEKARA MURTHY): (a) Government Directors from the Banking Division have been appointed on the boards of Industrial Development Bank of India (IDBI) and Industrial Finance Corporation of India Ltd. (IFCI).

(b) At present Special Secretary (Banking) is a Government Director on the board of IDBI and one of the Joint Secretary in the Banking Devision is on the board of IFCI Ltd.